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Gazprom may delay Vladivostok LNG to focus on gas line to China

(Bloomberg; June 19) - Gazprom could delay some investments next year to focus its resources on building natural gas pipelines to China and paying dividends, a person with knowledge of the matter said. Investments in the planned Vladivostok liquefied natural gas project in Russia's Far East and possibly other projects may be postponed, the person said, asking not to be identified as the information isn't public.

U.S. and European sanctions on technology exports to Russia could hold up Vladivostok construction in any case, he said. Gazprom had planned to start the LNG project, a day's voyage from the world's biggest LNG importer, Japan, by 2019. Seeking to increase its presence in Asia, the Russian gas giant agreed in 2011 with a group of Japanese companies led by trader Itochu Corp. to study the feasibility of the project.

Last year, Gazprom said pipeline gas supplies to China could be more competitive than Vladivostok LNG, a project that may cost about $15 billion, according to estimates of VTB Capital analysts in Moscow. A gas pipeline into China would cost much more than that, but would deliver more gas than an LNG plant.

Tanzania says LNG project decision three years away

(Bloomberg; June 19) - Tanzania, holder of East Africa's biggest natural gas reserves after Mozambique, will decide on a $15 billion liquefied natural gas export plant in three years, potentially adding to a glut of supply projects from the U.S. to Australia. BG Group and Statoil are still drilling the offshore fields that would feed the plant, said Willington Hudson, a director at state-run Tanzania Petroleum Development Corp.

Discoveries in East Africa this decade have established the region as the newest gas province and raised the prospect of LNG exports to world markets. While rival projects from North America to Australia promise to boost global supplies of the fuel, BG and its peers in Tanzania and Mozambique are pressing ahead on the expectation that demand will outstrip supply in the coming decades.

"You need to look at energy demand for the next 50 years," Hudson, director for downstream operations, said in an interview in London. "Demand for gas will continue going up." Tanzania's first offshore gas discovery was made in 2010. Since then, a series of finds has expanded the country's potential reserves to 55 trillion cubic feet. In neighboring Mozambique, Anadarko Petroleum and its partners are planning a separate LNG export plant, although they, too, have yet to make a final investment decision.

Strategic alliance with Shell will help Gazprom expand markets

(Reuters; June 19) - Gazprom is building a global strategic alliance with energy major Shell that will include asset swaps and allow the Russian gas giant to penetrate new markets, its chief executive told Reuters. Gazprom, the world's top gas producer, said June 18 that Shell and its long-time gas buyers in Europe — Germany's E.ON and Austria's OMV — had agreed to build two new Russian gas pipelines under the Baltic Sea to Germany at an estimated cost of $11 billion.

Gazprom CEO Alexei Miller said the agreement with Shell also covers expansion of the firms' liquefied natural gas plant on the Russian Far East island of Sakhalin as well as global upstream asset swaps. "Documents of such significance are signed only once every five years or maybe even 10," Miller said. The deal with Shell is a coup for Gazprom at a time when many Western companies are reducing their exposure to Russia because of Western sanctions over Moscow's actions in Ukraine.

Gazprom, which is under U.S. but not European Union sanctions, is fighting for market share in Europe in the face of increasingly oversupplied gas markets, and is locked in a long-running dispute over its prices to some European nations.

Gazprom, Shell agree to expand Sakhalin LNG; provide no timetable

(Reuters; June 18) – Russian gas producer Gazprom and Shell have signed an agreement to expand the Sakhalin-2 LNG project, Gazprom said in a statement June 18. The Sakhalin-2 project, which opened in 2009 and is Russia's sole LNG export plant, has a current annual capacity of about 10 million metric tons (about 480 billion cubic feet of natural gas per year). Adding a third liquefaction train to the plant would boost production by 5 million tons a year.

Officials from both companies signed the agreement at an economic forum in St. Petersburg, but gave no specific timing for the expansion. Gazprom Deputy Chief Executive Alexander Medvedev told reporters this week he hoped to give answers on the project expansion, including timing, in 2016. Gazprom has 50 percent of the project, with Shell at 27.5 percent and Japan’s Mitsui 12.5 percent and Mitsubishi 10 percent.

Poland on track to start accepting LNG deliveries this fall

(Reuters; June 17) - Poland's newly appointed Treasury Minister Andrzej Czerwinski said June 17 that the first shipments of liquefied natural gas to the country's new import terminal on the Baltic Sea are most likely to come in autumn. The terminal is Poland's flagship project in its drive to diversify gas supplies and reduce its dependence on Russia for pipeline gas deliveries.

Italian firm Saipem, which is leading the consortium building the terminal, said earlier this year it would complete the delayed construction this summer, but only if it receives further payment. The contractor and Poland have been debating higher construction costs, now estimated at about $750 million for the LNG import terminal with capacity to average about 500 million cubic feet a day of send-out capacity.

Poland meets about one-quarter of its gas demand with domestic production. Russia supplies about 85 percent of its imports. Poland will be the second European nation to install an LNG import facility as an alternative to Russian gas. Lithuania last year started accepted LNG deliveries at its floating import and storage facility at a Baltic port.

Japan looking to increase LNG use by trucks and ships

(Reuters; June 18) - Japan, the world's biggest importer of liquefied natural gas, is drawing up plans to get trucks and ships to use the fuel, partly to help cut carbon emissions but also to diversify energy sources in the freight sector for security reasons. A draft report on energy policy discussed at the trade ministry June 18 stressed the need for a greater variety of fuels to transport cargo and noted the growing international use of LNG and compressed natural gas in the sector.

Ryo Minami, the ministry's director of oil and gas, wants 10 percent of the 300,000 trucks used for long-distance transport to be fueled by LNG soon and a "substantial" part of the fleet to use gas eventually. "By diversifying fuel in the distribution sector, we aim to improve our ability to respond in the event of an energy crisis," he said. Natural gas has taken on added importance since the 2011 Fukushima disaster led to the shutdown of Japan's nuclear power sector.

Gas now accounts for more than 40 percent of electricity generation, and LNG imports hit a record high of 89 million metric tons in the fiscal year that ended March 31 (almost 4.3 trillion cubic feet of gas). But gas has less than 1 percent of the mix in the transport sector. The Japan Gas Association reckons Japan could have 500,000 vehicles running on LNG or CNG by 2030, about 20 percent of all trucks — if the necessary fueling and service infrastructure is built. That could add 2 million tons per annum of LNG demand.
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Proposed Mississippi LNG project joins the list at FERC

(Houston Chronicle; July 19) - The Gulf LNG project proposed by Kinder Morgan and minority partners for the Mississippi coast filed June 19 for federal approval to add export capabilities to an existing — but underutilized — liquefied natural gas import terminal. Kinder Morgan is seeking Federal Energy Regulatory Commission approval to build an $8 billion, two-liquefaction-train LNG export project near Pascagoula, Miss.

The project would capitalize on Kinder Morgan's existing gas line and terminal facilities. The goal is to begin operations by the end of 2020, though that will depend on FERC approval, Department of Energy export approval, customer support and financing. Gulf LNG is among multiple proposed export projects lined up for FERC and Energy Department approval and financial commitments by developers.

Kinder Morgan owns 50 percent of the project, with 30 percent held by Thunderbird Resources Equity, which is jointly held by the New York Blackstone Group private-equity firm and New Jersey-based Chatham Asset Management. The remaining 20 percent is owned by the Arc Logistics Partners pipeline firm and New York-based Lightfoot Capital Partners.

U.S. natural gas summer storage build-up could hit record

(Wall Street Journal; June 17) - Amid oil's collapse, it's easy to forget the U.S. natural gas market has been struggling with its own shale-derived excess for years. While oil prices have rallied 12 percent in 2015, front-month gas futures are down 2 percent. At around $2.90 per million Btu, gas is well below even its pretty dismal five-year average of $3.67. Like oil, gas inventories are high. Unlike oil, it's certain that gas stockpiles will keep climbing — they always do over the summer. The big question is: How much?

The "injection" season — when excess gas output is squirreled away ahead of winter — usually stops at the end of October. Last year, 1.97 trillion cubic feet of gas entered storage between early June and the season's end, taking the storage total to 3.6 tcf. Replicate that pace this year and inventories would hit 4.31 tcf by Halloween — a record high, testing the limits of the U.S. gas storage system.

So far this year, injections are actually running ahead of last year's season. Barring a harsh summer followed by a harsher winter, gas prices look set to stay moribund. The bigger risk may lie in 2016, where futures indicate an average price of $3.23. If inventories reach that dreaded 4 tcf mark this year, don't count on gas prices holding on to that $3 price next year.

Canadian report forecasts low natural gas prices will continue to 2017

(Calgary Herald; June 19) - Low natural gas prices are expected to persist for the next two years as Canadian producers ignore an oversupplied market and drill to prove up reserves for LNG exports and to produce petroleum liquids in high demand as diluent for bitumen (oil sands) transportation. In a report June 19, Canada's National Energy Board unveiled a mid-range forecast that shows the U.S benchmark increasing to an average $3.55 per million Btu in 2017 after falling from $4.35 in 2014 to $2.90 this year.

Lead author Connor McDonald said it means continued tough times for Western Canadian gas producers, although they are perversely benefitting on the cost side as the slide in oil prices over the past year has led to service and labor cost-cutting. "We still have a lot of competition from the U.S. — that's something that really can't be understated — and we are still in an oversupplied market," he said. "In those respects, there are definitely some difficulties for Canadian producers."

He said gas production in Canada is expected to remain flat through 2017, with a slight rise if prices rise. Despite crude oil's higher profile, gas prices remain vitally important to Western Canadian producers, some of whom are drilling British Columbia gas wells in anticipation of supplying the liquefied natural gas export industry, although no LNG projects have been sanctioned as yet. Wells targeting oil or liquids also produce substantial streams of gas as a by-product.

Canada looks at northern transportation corridors for resource export

(Globe and Mail; Canada; June 18) – To spur northern economic development and end regulatory gridlock on resource projects, an ambitious research project announced June 18 will examine the feasibility of building major new infrastructure corridors spanning Canada's north. The project, led by the University of Calgary's School of Public Policy and the Montreal-based Center for Interuniversity Research and Analysis, will look at the possibility of a new network of roads, rail and pipelines, as well ports and airports.

The scholars and experts will consult with the federal government and provinces and write several research papers over several years, likely with a budget of around $1 million. Jack Mintz of the School of Public Policy said Canada's existing road and rail networks were constructed on the premise of doing trade with the United States. Attempts to shift direction and build pipelines or infrastructure aimed at other markets have stuttered and encountered regulatory gridlock because there is no comprehensive national vision for how and where new infrastructure should be built, Mintz said.

"Today the world has changed," he said. "We have growing populations and incomes in Asia, Africa and Latin America. How do we get market access for all of our exports — agriculture, mining, potash, as well as oil and gas?" The research project envisages a transportation corridor that would allow northern resources to reach tidewater, and foreign markets, in a cost-effective and efficient manner. This would generate jobs and other economic benefits in northern communities struggling with dwindling populations.

Irving Oil defends LNG import terminal property tax deal in Canada

(CBC News; June 19) - Irving Oil is responding to criticism about its profits and property taxes at the Canaport LNG import terminal with a newspaper ad in the June 18 Saint John (New Brunswick, Canada) Telegraph Journal under the heading, "A message to our home community." It says, "On an overall basis, we believe that the returns generated by this project for our company are appropriate given the scale and risk associated with the undertaking."

In an apparent nod to a city council motion scheduled for June 22, the ad suggests revisiting the Canaport LNG property tax deal could threaten potential projects like the Energy East Pipeline to move oil sands production to the East Coast and adding export capabilities to the Canaport site. "The risks associated with investments of this scale make it critical that we send the strongest signals possible to potential investors that we are not a community that rethinks commitments after investments have been made."

The ad appears just days ahead of the Saint John council vote that could see the city manager investigate profits the company is making from the Canaport LNG deal that have recently been reported by CBC. Irving Oil's negotiated property tax bill for Canaport LNG — $500,000 a year — is just six percent of what would normally be charged based on a fair-market assessment. The import plant, which opened in 2009, is the beneficiary of a 25-year property tax break.